

VERMONT PENSION INVESTMENT COMMITTEE
October 25, 2012

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Member(s) Absent:

None

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2016

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013 – via telephone

VPIC Alternate Member(s) Absent:

None

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer

Matt Considine, CFA, Director of Investments

Katie Green, Investments Manager

Jaye Pershing-Johnson, Attorney General's Office

Chris Levell, NEPC LLC

Steven Roth, Dahab Associates

Christopher Talbert and Springer Harris, Teucrium Trading, LLC

Taylor Johnson

Kathleen Menard, Mark Emmons – Retired Vermont State Teachers

Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Thursday, October 25, 2012 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval, Announcements, and Minutes of September 25, 2012 Regular Meeting**

At the Chairperson's request the visitors introduced themselves to the Committee. The Chairperson, Mr. Rauh, briefly reviewed the agenda. Mr. Rauh acknowledged Mr. Johannesen's request that they discuss cyber security at some point during the meeting. Mr. Hooper indicated he will provide further information concerning the conference he would like to attend.

On a motion by Mr. Johannesen, seconded by Mr. Mackey, the Committee unanimously approved the minutes of the September 25, 2012, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report and Action Items

- **Review September Flash Report**

Mr. Considine reviewed with the Committee the outcome of the review with Post concerning the High Yield portfolio performance and structure of the team. Mr. Levell indicated that although the turnover of the team is not an issue at this time since the last departure was last year, it does remain a concern since they lost most of the bank loans team.

(Ms. Pearce arrived during this agenda item.)

Mr. Considine indicated he received notification from PIMCO of a downgrade of a private placement mortgage security in the PIMCO Core Plus portfolio, along with the downgrade of a non-agency mortgage backed security in the PIMCO Unconstrained portfolio. Since they were below the maximum value for which a Director approval can be granted, they were given permission to retain the holdings. Mr. Considine indicated the percentage of holdings which have been downgraded below the minimum quality ratings remains at 2.6% in both the PIMCO Core Plus and PIMCO Unconstrained fund.

Mr. Considine indicated to the Committee, in consultation with the VPIC Chair, Mondrian Global Bond Fund was given permission to trade in the South Africa market, as that market was added to Mondrian's benchmark. Mr. Considine explained to the Committee J.P. Morgan's monitoring of this occurrence. In response to the Committee's request, Mr. Considine agreed to provide a list of excluded markets. Ms. Johnson discussed the staff's discretion in making these decisions.

Mr. Considine indicated to the Committee the assets under management were up approximately 0.5% to \$3.57 billion as of September 30, 2012. Mr. Considine indicated the total assets are 1.1% below the "high water" mark. Mr. Considine indicated to the Committee the portfolio asset allocation projected as of October 31, 2012 is 33.9% equities, 35.0% fixed income, 11.2% alternatives and 19.8% multi-strategy, compared to target allocations of 33.5%, 35%, 11.5% and 20% respectively.

Mr. Levell reviewed with the Committee the September flash report and responded to the Committee's inquiries.

ITEM 3: **Discussion Items/Updates**

- **Vermont State Treasurer's Update**
- **Contract Updates**
- **NEPC Investment Manager Watch List Update: Post Advisory**

Ms. Pearce indicated to the Committee Buck Consultants provided the actuarial reports on Tuesday to the three Boards. Ms. Pearce briefly discussed asset smoothing and amortization. Ms. Pearce indicated she would provide a full report and trend analysis in November once the reports have been finalized. Ms. Pearce indicated the cost of health care for the Teacher system continues to be an issue.

Ms. Johnson indicated the contracts with HarbourVest have been finalized.

Mr. Rauh indicated Mr. Levell provided the update on Post being on the managers watch list during Mr. Considine's Report.

(Mr. McConnell joined the meeting via the telephone.)

ITEM 4: **Review of Fixed Income Overlay Strategies**

- **Tracking Error**
- **Asset Allocation Sector Assignment**

Mr. Levell reviewed with the Committee the *Manager Evaluation – Follow-Up Discussion* handout. Mr. Levell reviewed with the Committee the strategies of both Allianz and Wellington DAS. The Committee discussed returns versus volatility of the two strategies. Mr. Levell reviewed with the Committee NEPC's conclusions and observations. It was decided Mr. Considine and Mr. Levell would further research Allianz and report back to the Committee. It was the consensus of the Committee to do nothing at this time.

(A recess was taken from 10:45 a.m. to 10:55 a.m.)

ITEM 5: **Annual Policy Reviews**

- **VPIC Operating Policies**
- **VPIC Standards of Conduct/Conflict of Interest Disclosure**
- **Education Policy**
- **Proxy Voting Guidelines**

Mr. Rauh indicated relative to the Proxy Voting Guidelines the contract with ISS terminates December 31st. It was indicated an RFP will be done and that Mr. Mackey and Mr. Johannesen volunteered to be on a subcommittee relative to the proxy voting. Mr. Rauh indicated the proxy voting issue will be picked up again in December once there is more information to provide.

Ms. Johnson reviewed with the Committee the *VPIC Operating Policies*. Ms. Johnson indicated the Chair may be considered part of a quorum, but may not vote. Ms. Johnson indicated that might be something the Committee would like to change in statute as part of a Retirement housekeeping bill.

(Ms. Pearce left the meeting briefly during this item.)

Ms. Johnson reviewed with the Committee the *VPIC Standards of Conduct/Conflict of Interest Disclosure*. Mr. Mackey questioned sanctions available if a trustee was not performing their fiduciary responsibility. Ms. Johnson directed Mr. Mackey to page 41 of the handout indicating VPIC had very little authority to recommend a trustee refrain from a particular action. The Committee reviewed “gifts” in more detail.

The Committee discussed the *Education Policy*. There was a discussion relative to Committee members who worked in the investment management business. It was indicated if there was a concern Ms. Johnson could be contacted confidentially.

ITEM 6: Economic and Financial Market Dashboard

The Committee discussed the economic and financial market dashboard. The Committee discussed the positive and negative factors on the economic and financial market dashboard. The Committee reviewed the chart on the dashboard. Cyber security was discussed. Ms. Wisloski indicated he would contact the IT staff in order to obtain what the State of Vermont is doing relative to cyber security.

(Mr. Golonka and Mr. McConnell left the meeting during this item.)

(A luncheon recess was taken at 12:05 p.m. to 12:45 p.m.)

(Ms. Paul and Mr. Johnson were not present for the afternoon session.)

ITEM 7: Annual Review of Investment Guidelines

- **JP Morgan Guideline Compliance Monitoring**
- **Manager Benchmarks**

Ms. Johnson provided an overview of the Investment Guidelines. There was a discussion concerning risk objectives and manager benchmarks. There was a discussion relative to the investment manager’s selection process. There was a discussion concerning J.P. Morgan’s compliance monitoring system. Mr. Considine reviewed with the Committee

the *Vermont Investment Pension Committee – Market List*. There was a discussion concerning Mondrian and their lack of notification of new markets. Mr. Considine indicated after his conference call with Mondrian they assured him it would not happen again.

There was a further discussion about benchmarks.

ITEM 8: Other or New Business

Mr. Levell provided the Committee a short preview of upcoming issues for 2013.

Mr. Hooper provided the Committee the itinerary for the Global Indexing Conference.

On a motion by Mr. Altemus, seconded by Mr. Mackey, the Committee unanimously voted to approve Mr. Hooper's travel request to attend the Global Indexing Conference with the expense not to exceed \$3,500.00.

ITEM 9: Adjournment

On a motion by Mr. Jeffrey, seconded by Ms. Pearce, the Committee unanimously voted to adjourn the meeting at 2:20 p.m.

Respectfully submitted,

Monica Chiren, Clerk